



Senate Budget and Fiscal Review Committee
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State Capitol, Room 5019
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SUMMARY OVERVIEW BUDGET CONFERENCE COMMITTEE REPORT

PROPOSED 2008-09 BUDGET (AB 1781)

On July 8, the Budget Conference Committee (using Assembly Bill 1781) completed its work and is presenting a budget that is balanced, as required by the State Constitution, with a General Fund reserve of approximately \$1.6 billion.

The budget developed by the Conference Committee is based on \$107.7 billion in available General Fund resources, and \$105.2 billion in General Fund expenditures. The final General Fund reserve is about \$1.6 billion.

The Conference Committee report reflects funding prioritization that (1) protects the most vulnerable populations in the state – sustaining the safety net for the elderly, blind, and disabled, (2) invests in prevention programs with the view of reducing future costs, (3) makes solid commitments to programs serving children and schools, (4) makes appropriate use of available bonds, and (5) rejects unachievable budget year solutions of \$7 billion – such as the administration's lottery securitization and accrual proposals.

The Conference Committee, in order to balance the budget, needed to do a combination of things – program reductions, suspension of increases, and elimination of tax loopholes and revenue proposals. The tax loophole closures and revenue proposals are designed to raise the revenue we need to balance the

budget, stabilize state finances, provide sufficient resources to fund existing services (not new services), and rid the state of the ongoing structural deficit.

In addition, the actions of the committee reflect difficult decisions in order to craft the final solution, including not funding State Supplemental Payments (SSP) and CalWORKs cost-of-living adjustments (COLAs); not backfilling for student fee increases at UC and CSU; and reducing transportation “spillover” funds by over \$1 billion in order to provide an equivalent amount of General Fund relief.

Some of the key elements of the Conference Committee Report include, but are not limited to, the following (by subject area):

K-12 EDUCATION

- Increases school funding by \$2.2 billion above the Governor’s May Revise. However, overall funding is approximately \$2 billion less when compared to a workload budget level.
- Provides for partial COLA (approximately \$1.2 billion, or 2.12 percent) for K-14 education; while not creating new programs.
- Denies the Governor’s budget balancing reductions of more than \$900 million, which decreased funding to nearly all K-14 programs, except K-12 revenue limits and special education.
- Eliminates the STAR norm-referenced test currently administered to students in grades 3 and 7 for a savings of \$2.5 million.
- Captures \$121 million in savings for various K-12 programs, which reflect workload and other technical adjustments.
- Continues, unfortunately, the deferral of annual mandate payments for K-12 education in 2008-09, estimated to cost \$180 million annually.

HUMAN SERVICES

- Suspends the 2008 CalWORKs COLA for a savings of \$121.5 million.
- Suspends the October 2008 and June 2009 SSP cost-of-living adjustment for \$222 million in GF savings.

- Rejects the administration's proposal to impose graduated full-family sanctions, restrict safety-net grants, and elimination of grants for children of CalWORKs-eligible parents.
- Adopts the Work Incentive Nutritional Supplement (WINS) Program to provide a single \$40 per month additional food assistance benefit for eligible households, and provides \$2 million to begin the automation process for program implementation. Adoption is contingent upon establishment of a pre-assistance employment readiness system (PAERS) program.
- Rejects reductions to prevention programs that provide future cost savings: (a) \$25 million reduction to the Substance Abuse and Crime Prevention Act (\$20 million) and the Substance Abuse Offender Treatment Program (\$5 million); (b) \$3.1 million reduction to drug court programs (the Comprehensive Drug Court Implementation, Drug Court Partnership; and Dependency Drug Court), and (c) \$3.1 million reduction to non-drug Medi-Cal Regular (\$733,000) and Non-Drug Medi-Cal Perinatal (\$2.3 million) programs.
- Adopts a \$1 million General Fund reduction to the California Methamphetamine Initiative (CMI).
- Rejects the administration's proposals to retain the January 2009 federal Supplemental Security Income (SSI) COLA rather than pass it through to recipients and to eliminate the Cash Assistance Program for Immigrants (CAPI) which provides cash benefits to aged, blind, and disabled legal non-citizens who do not qualify for SSI/SSP as a result of their immigration status.
- Rejects proposals to limit the state's participation in the cost of IHSS provider wages and benefits to the minimum wage (\$8 per hour) plus \$0.60 per hour for benefits, to change the criteria for IHSS recipients to qualify for domestic and related services based on their functional index score, and to eliminate the IHSS share of cost buy-out for those recipients with a functional index score below four.

HIGHER EDUCATION

- Partially restores General Fund of \$98.6 million to UC and \$97.6 million to CSU to hold funding at the levels provided in 2007-08.

- Fails to provide additional General Fund for enrollment growth or COLA to either the UC or CSU. Necessitates student fee increases of approximately 10 percent at both UC and CSU.
- Adopts budget bill language to reinstate academic preparation programs and research “earmarks” for legislative priorities at UC and CSU.
- Restores the Governor’s across-the-board reductions at community colleges. And holds CCC student fees constant, at \$20 per unit, at the community colleges.
- Provides two percent growth and a partial cost-of-living adjustment of 2.43 percent for community colleges.
- Restores \$57 million for competitive Cal Grant awards, the state’s primary financial aid for older and nontraditional students attending colleges and universities. The \$57 million funds approximately 22,500 Cal Grant awards.
- Fully funds the Cal Grant “entitlement” program, providing grants to all financially-needy and academically-eligible recent high school graduates and community college transfer students.
- Utilizes \$24 million in Student Loan Operating Funds to offset Cal Grant local assistance funding in order to obtain a like amount of GF savings.

CHILD DEVELOPMENT

- Provides full funding of Stage 2 and Stage 3 CalWORKs child care.
- Restores Governor’s proposed across-the-board reductions to various child care programs.
- Reinstates a partial cost-of-living adjustment.
- Approves Governor’s proposal to freeze state median income (SMI), the income level under which families are eligible to receive subsidized child care services.

- Adjusts child care provider reimbursement rates, pursuant to the new Regional Market Rate survey, effective March 1, 2009.
- Adopts trailer bill language that basically would treat the After School Education and Safety Program (Proposition 49) similar to other categorical programs, subject to annual Legislative appropriations. This would be subject to voter approval.

TRANSPORTATION

- Includes full funding (\$1.5 billion) for Proposition 42, including \$83 million in required repayments.
- Provides about \$3.6 billion in Proposition 1B bonds, including: (a) \$1.5 billion for the Corridor Mobility Improvement Account (CMIA); (b) \$996 million for the State Transportation Improvement Program (STIP); (c) \$417 million for the Trade Corridors Improvement Fund; (d) \$214 million for the State Highway Protection and Preservation Program (SHOPP); and (e) \$103 million for State Route 99.
- Provides General Fund relief of approximately \$1.1 billion from “spillover” funds. The spillover revenue, which is gasoline sales tax above Prop 42 revenue, is directed to GF relief as follows: (a) \$607 million to reimburse the GF for transportation related G.O. bond debt; (b) \$276 million to reimburse the GF for Home-to-School transit; (c) \$147 million for regional center transportation budgeted in the Department of Developmental Services; and (d) \$83 million to reimburse the GF for the Proposition 42 loan repayment.
- Provides \$559 million for transit operations, which is \$253 million more than that proposed by the Governor.
- Shifts a portion of Capital Outlay Support (COS) engineering workload from contractors to state staff for a savings of \$10 million. The final allocation of COS workload is 90 percent state staff and 10 percent contractors.

HEALTH

- Restores most of the 10 percent rate reduction to Medi-Cal Fee-for-Service providers, including physicians, medical transportation, home health, dental, outpatient services and other medical services, effective as of September 1,

2008. Assembly Bill X3 5, Statutes of 2008, enacted a 10 percent reduction effective as of July 1, 2008.

- Provides a 5 percent restoration to the rates paid to pharmacy providers under the Medi-Cal Program, effective September 1, 2008.
- Provides a 5 percent restoration to the rates paid to certain Long-Term Care providers, including: (1) Level A nursing homes, (2) Distinct Part Nursing Homes, (3) Distinct Part Subacute, (4) Distinct Part Pediatric Subacute, and (5) Adult Day Health Care under the Medi-Cal Program, effective September 1, 2008.
- Adopts modified trailer bill language regarding the rate methodology used to reimburse nursing homes that pay a quality assurance fee (as contained in AB 1629, Statutes of 2004). This language provides for a two-year extension of the rate methodology, capitates the maximum annual increase to 5 percent for the next two years, establishes a comprehensive stakeholder group process to craft quality assurance measures, and requires the Department of Health Care Services (DHCS) to report to the Legislature regarding recommendations forthcoming from the stakeholder group process.
- Restores most of the 10 percent rate reduction in the California Children Services (CCS) Program, including specialty care physicians, effective September 1, 2008.
- Partially restores the Governor's proposal to reduce by 10 percent the amount of state support for Medical Therapy Services provided under the California Children's Services (CCS) Program by providing \$2.4 million in federal Title V Maternal and Child Health Funds to support the program. Therefore, a net reduction of \$1.4 million (General Fund) was made in lieu of the Governor's \$3.1 million.
- Provides funding for Medi-Cal Managed Care plans to account for: (1) increases in the number of enrollees; (2) adjustments to reflect updated data as calculated according to existing statute (i.e., Mercer calculations); and (3) corresponding actuarially-based rate adjustments due to Fee-For-Service and related Medi-Cal Program changes.

- Restores most of the 10 percent rate reduction in the Child Health and Disability Prevention Program (CHDP), effective September 1, 2008.
- Restores most of the 10 percent rate reduction in the Genetically Handicapped Persons Program (GHPP), effective September 1, 2008.
- Continues the Governor's 10 percent rate reduction, as contained in Assembly Bill X3 5, Statutes of 2008, for Non-Contract Hospitals participating in the Medi-Cal Program and adopts modified trailer bill legislation to encourage hospitals to participate in the Selective Provider Contract Program operated by the California Medical Assistance Commission (CMAC).
- Utilizes \$9.15 million (one-time only) from supplemental funds normally transferred to the Distressed Hospital Fund to pay back the federal government due to an impermissible Intergovernmental Transfer made by Fresno County and Fresno Community Medical Center. Adopted conforming Budget Bill Language and trailer bill language for this action. This action is used in lieu of General Fund support.
- Utilizes \$13.6 million (one-time only) from supplemental funds normally transferred to the Private Hospital Fund to offset General Fund support within the Medi-Cal Program. Adopted conforming Budget Bill Language and trailer bill language for this action.
- Funds counties to conduct eligibility processing for the Medi-Cal Program including new enrollment, making re-determinations, and implementing disenrollments. However, funding for the cost-of-doing-business was not provided for a reduction of \$64.6 million (\$32.3 million General Fund).
- Adopts trailer bill language to suspend the state's penalty on counties for not meeting certain performance standards when the cost-of-doing-business is not provided.
- Adopts modified trailer bill language that limits the amount health plans participating in the Medi-Cal Managed Care Program must pay hospitals that are out of the plan's network for emergency room services provided to Medi-Cal plan enrollees (i.e., the federal Rogers Amendment requirement).

- Adopts trailer bill language to require the Department of Health Care Services (DHCS) to determine the reimbursement rates for Geographic Managed Care plans in Medi-Cal, in lieu of using the California Medical Assistance Commission (CMAC).
- Adopts trailer bill language to require the DHCS to provide health plans participating in Medi-Cal Managed Care with a preliminary rate by no later than June 30th of each year.
- Adopts the Governor's 10 percent reduction in case management for the Child Health and Disability Prevention (CHDP) Program.
- Fully funds the Department of Public Health's Biomonitoring Program by backfilling General Fund support using Toxic Substances Control Account funds.
- Reduces by \$1.3 million (General Fund) to delay the implementation of Senate Bill 739, Statutes of 2006, regarding community-based infections.
- Adopts the Governor's May Revision proposal to continue the Medi-Cal Pharmacy Pilot Project for HIV/AIDS until June 30, 2009. This action includes trailer bill language to limit the payment of the enhanced \$9.50 dispensing fee to HIV/AIDS drugs and drugs used for treatment of opportunistic infections only.
- Adopts trailer bill language to require the Department of Public Health to provide the Legislature on January 10th and at the May Revision with a budget estimate for the AIDS Drug Assistance Program (ADAP). The ADAP was fully funded using drug rebate funds to backfill for \$7 million in General Fund support.
- Increases by over \$5 million (General Fund) the amount appropriated for the HIV/AIDS Education and Prevention Program funding.
- Modifies the California Discount Prescription Drug Program to make it self-financing in future years.

- Restores the \$277,000 (General Fund) reduction proposed by the Governor to the Prostate Cancer Treatment Program.
- Contains the Governor's 10 percent reduction of: (1) \$692,000 (General Fund) to the Alzheimer's Disease Research Centers, and (2) \$326,000 (General Fund) to the Dental Disease Program.
- Eliminates \$1.2 million (General Fund) from the Health Screens for Adults Program.
- Reduces by \$1.2 million (General Fund) the amount provided to Local Health Jurisdictions for local infrastructure for immunization assistance. These entities receive about \$29 million in federal fund support.
- Reduces, by 10 percent, the Male Involvement Program and the Information and Education Projects for teens as proposed by the Governor.
- Provides one-time funding of \$825,000 (federal Title V Maternal and Child Health Funds) for the Maternal Mortality Project.
- Fully funds the Adolescent Family Life Program by using federal Title V Maternal and Child Health Funds to backfill for General Fund support to obtain savings.
- Reduces the Poison Control System by \$1 million (General Fund) and adopted Budget Bill Language to have the Emergency Medical Services Authority provide assistance to the system to obtain funding from non-General Fund sources, including the California Children and Families Commission and foundations.
- Adopts the Governor's proposal to obtain a loan to the General Fund from the Occupational Lead Poisoning Prevention Account in the amount of \$1.1 million.
- Adopts the Governor's proposal to obtain a loan to the General Fund from the Drinking Water Operator Certification Special Account in the amount of \$1.6 million.

- Reflects the Governor's decision to rescind his May Revision proposal to obtain a loan to the General Fund from the Drinking Water Treatment and Research Fund in the amount of \$8.5 million.
- Modifies the Governor's proposal to increase the premiums low-income families pay to enroll their children in the Healthy Families Program. Specifically, families from 151 percent to 200 percent of poverty will have a three dollar increase in their monthly premium payments or \$12 per child, with a family maximum of \$36 per family. Families above 200 percent of poverty will have a two dollar increase in their monthly premium payments or \$17 per child, with a family maximum of \$51 per family.

MENTAL HEALTH

- Deletes \$5.1 million (General Fund) for Department of Mental Health (DMH) staff and administrative costs associated with further implementation of certain federal requirements. These funds were not provided since the DMH has funds available for this purpose due to salary savings from vacant positions.

DEVELOPMENTAL SERVICES

- Adopts the Governor's 10 percent reduction of \$512,000 (General Fund) for client's rights advocacy.
- Adopts trailer bill language to review cost containment measures regarding services provided through the Regional Centers.

JUDICIAL / PUBLIC SAFETY

- Restores \$100 million General Fund for the COPS Program that supports local law enforcement.
- Restores \$100 million General Fund for the Juvenile Justice Crime Prevention Act program that supports local probation departments.
- Restores \$181 million (\$151 million from federal TANF) for local probation departments to support juvenile programs.

- Eliminates funding for grants to local law enforcement to help mentally ill offenders to save \$40 million General Fund. However, this program can be funded locally with Proposition 63 funds.
- Approves trailer bill language to increase the property crime threshold to reflect inflation. The last time many of these values were adjusted was 1982. Approves trailer bill language to change the crime of petty theft with a prior from a wobbler (punishable as either a felony or a misdemeanor) to a misdemeanor. These sentencing changes will result in \$100 million in General Fund savings and would likely grow in future years.
- Approves trailer bill language to implement inmate credit reform to: (a) establish consistent day-for-day credit earning for offenders currently eligible for earning day-for-day credit; (b) authorize the department to reward enhanced credits (up to 4 months) to offenders that complete rehabilitation, education, and vocation programs in prison; and (c) authorize the department to provide one month credit for every four months discipline free to encourage good behavior in prison. These statute changes will result in \$140 million in savings and would grow in future years.
- Approves trailer bill language to implement parole reforms that will authorize direct discharge from parole for non-violent, non-serious offenders with no serious or violent priors. Approves trailer bill language to implement earned discharge from parole under the following conditions: (a) non-serious, non-violent with violent or serious priors would be discharged after 5 months of clean time; and (b) serious, violent offenders would be eligible after 16 months of clean time, which is half of the current parole period. These statute changes will result in \$193 million in savings in the budget year and would grow in future years.
- Approves \$5 million General Fund to begin the implementation of reduced parole caseloads from 70:1 to 50:1 through a phased implementation.
- Approves trailer bill language to implement a pilot project in ten trial courts to divert certain parolees that would otherwise be revoked and sent back to state prison to alternative community sanctions using a drug court model. Approves trailer bill language to mandate other alternative sanctions for certain parole violators including GPS, community work crews, and short-term incarceration.

These statute changes would result in \$17 million in savings in the budget year and would grow in future years.

- Provides no General Fund augmentation to the Judicial Branch in the budget year requiring the Judicial Branch to use one-time reserves to support its operations in the budget year.
- Delays implementation of a new program enacted in 2006 to reduce fraud and abuse of elderly and dependent of adults to save \$17.4 million General Fund.
- Reduces funding for Department of Justice gang suppression and methamphetamine enforcement activities that assists local law enforcement in saving \$10 million General Fund.
- Eliminates over 100 vacant positions at the Department of Justice to save \$11 million General Fund.
- Increases fees to support state forensic laboratories that directly support local law enforcement in counties that do not have their own labs to save the state \$32 million General Fund.
- Eliminated the Crime and Violence Prevention Center at the Department of Justice for \$5 million in General Fund savings.

NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION

- Increased new funding for fire protection and other emergency services by double the Governor's proposal. The additional revenue increases the state's fire protection service level to four firefighters per engine and creates a funding reserve for future emergencies.
- Provides \$126.5 million for emergency levee evaluations and repairs. Also provides over \$263 million for construction of levees and other flood control projects.
- Provides \$305 million for FloodSAFE, a long-term strategic initiative developed to reduce flood risk in California.

- Provides \$50 million to the Air Resources Board from AB 118 funding for a program to assist low-income short-haul truckers in meeting new air quality standards.
- Provides \$75 million to the Energy Commission to begin work on AB 118 implementation, such as grants and other funding mechanisms to develop and deploy innovative technologies that transform California's fuel and vehicle types to help attain the state's alternative fuels and climate change policies.
- Approves the Governor's proposal for a \$32 million loan from the Beverage Container Recycling Fund to pay for AB 32 implementation activities. This option leaves future funding for the program uncertain.
- Provides signature authority to the Attorney General (AG) for the Electricity Oversight Board's (EOB) outstanding legal cases. This authority will allow the AG to collect over \$2 billion owed to the state from the 2001 electricity crisis. These funds could have been lost to the state due to the Governor's administrative elimination of the EOB.

GENERAL GOVERNMENT / STATE ADMINISTRATION

- Rejects cuts to Senior Citizens' Property Tax Relief Programs so payments to about 600,000 low-income seniors are not reduced.
- Adopts the administration's Emergency Response Initiative (ERI) in order to augment the emergency response capabilities of the Office of Emergency Services, the California Department of Forestry and Fire Protection, and the Military Department. The ERI establishes a surcharge on the premiums of insurance holders of residential and commercial property statewide. The surcharge, which the committee doubled in light of the existing wildfire threat, will be set at two levels on differing risk (high-risk 2.8 percent and low-risk 1.5 percent) and is expected to generate approximately \$139 million in 2008-09 and \$276 million annually thereafter.
- Rejects \$20 million augmentation of expiring limited-term funding for the California Multi-jurisdictional Methamphetamine Enforcement Team program; however, the committee was able to sustain \$9.5 million to support the program on a competitive grant basis.

- Suspends half of the annual \$5 million GF appropriation for the Cesar Chavez Day of Service and Learning program.
- Fully reimburses counties for costs associated with the early presidential primary of February 2008.
- Denies, due to not being an achievable budget year solution, the Governor's proposal to securitize future California Lottery proceeds for use in funding ongoing programmatic costs.
- Maintains full funding for oversight activities of the Fair Political Practices Commission.
- Denies \$40 million in funding for the Financial Information System for California project due to last-minute changes in the proposed procurement approach, but provides \$2.1 million GF for additional review and development of the project plan.
- Maintains the California National Guard's emergency response capability without impact to the General Fund by using new revenues from Emergency Response Fund to backfill expiring federal funds.
- Utilizes \$7.2 million of federal funds under the Workforce Investment Act for parolee services and green technology/green collar job training, providing an equivalent level of General Fund savings.
- Restores the 10 percent reduction to County Veterans Services Offices in order to assist veterans in accessing their full federal benefits.

TAX LOOPHOLE CLOSURES AND REVENUE PROPOSALS

- Reinstates the tax brackets on the wealthiest Californians by reinstating the 10% and 11% tax brackets. Revenue generated: \$5.6 billion. California's personal income tax rates ranges from 1 to 9.3 percent (for taxable income above about \$93,000 for joint returns). An additional 1 percent rate applies to incomes above \$1 million (that money supports mental health programs under Prop 63). Under this budget, this proposal imposes a new rate of 10 percent for taxpayers filing joint returns with taxable income above \$321,000 and 11

percent for those with incomes above \$642,000. This is similar to what Republican Gov. Pete Wilson did in the 1990s.

- Suspends the Net Operating Loss Deduction. Revenue generated: \$1.1 billion. California allows companies to carry forward a portion of losses (called Net Operating Losses, or NOL) incurred in one year and use them as a deduction against earnings in subsequent years. These tax breaks are used primarily by large corporations, many of them in the manufacturing and finance area. Companies with more than \$5 million in gross receipts account for just 13 percent of total businesses, but 80 percent of the NOL deduction. During an earlier fiscal crisis, this loophole was suspended. When the law was reinstated, the percentage of losses eligible to be carried forward was increased from 50 percent to 100 percent. The carry-forward period was also expanded to 10 years. The FTB estimates the value of NOL carried forward exceeded \$260 billion as of 2006. The budget suspends the NOL for three years and extends the allowable carry-forward period from 10 years to 20 years.
- Maintains the 2007 Income Tax Tables for 2008. Revenue generated: \$815 million. In a year in which the poor, elderly, and disabled are not getting cost-of-living increases for SSI/SSP and CalWORKS, the state should not adjust all of the tax tables for everyone else. Suspension of “indexing” would result in a proportional increase for taxpayers with incomes of up to \$97,000 (joint returns), and a flat increase thereafter. As an example, a taxpayer with taxable income of \$50,000 would pay about \$34 more, while a taxpayer with income exceeding \$97,000 would pay about \$180 more.
- Roll back a tax loophole for upper-income Californians. Revenue generated: \$215 million. Since 1997, taxpayers have received a nonrefundable income tax exemption credit for each dependent – regardless of their income. In 2007 this credit was \$294. The LAO recommended making the dependent tax credit the same dollar amount as the personal exemption credit for all taxpayers. That credit was \$94 for single taxpayers and \$188 for couples. The Conference Committee proposal is a variation of the LAO recommendation. It would rollback the dependent credit for taxpayers with adjusted gross income (AGI) that exceeds \$150,000. As a result, it would protect the credit for lower and middle-income households.
- Restores the corporate tax. Revenue generated: \$470 million. Virtually all companies are required to pay some amount of corporation tax. The top rate is now 8.84 percent. Prior to 1997, it was 9.3 percent. The Conference

Committee proposal rolls back the 1997 tax cut, and restores the 9.3 percent rate.

- Steps up tax enforcement. Revenue generated: \$1.5 billion. Modeled after successful tax amnesty efforts in the past, this proposal will collect taxes already owed to the state. Part of this revenue has been owed for years. Part will be an acceleration of revenues that would be paid in the future. This is one-time revenue.

GENERAL FUND SUMMARY

The following chart – a summary of the General Fund – illustrates how the budget crafted by the Budget Conference Committee compares with the Governor's May Revision for 2008-09.

General Fund Summary 2008-09 Budget Year (in millions)

	May Revision 2008-09	Conference Committee (AB 1781) 2008-09
Prior-year balance	\$1,743	\$3,308
Revenues and Transfers	\$102,987	\$104,403
Total Resources Available	\$104,730	\$107,711
Total Expenditures	\$101,836	\$105,216
Fund Balance	\$2,894	\$2,495
Budget Reserve:		
Reserve for Liquidation of Encumbrances	(\$885)	(\$855)
TOTAL AVAILABLE RESERVE	\$2,009	\$1,610